

## What Mainstream Economists Won't Tell You About Neoliberal Globalization\*

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What I remember most about the demonstrations against the World Trade Organization in Seattle in the winter of 1999 was the exhilaration of knowing by sundown of the first day that veterans of the 1960s like myself would not be condemned to live out the rest of our days never again to be part of a living movement for radical social change in our own country. But since I did not read a newspaper or watch a television for four days while in Seattle, I had no idea how the rest of the country was viewing “The Battle for Seattle.” I had only the mouse’s eye view until I returned home to Washington DC and opened five days of newspapers sitting outside my apartment. To my surprise I discovered that the *Washington Post*, the *New York Times*, and the *Boston Globe* had finally conceded that someone other than a crackpot or spokesperson for a “special interest” might have legitimate grounds for questioning the merits of neoliberal globalization. What was only a moderate sized demonstration by my standards had, to my surprise, succeeded in moving the issue of globalization from a back to a front burner in the United States.

Reporters were suddenly allowed to seek out “two views” whenever covering a globalization story. Editorial writers and syndicated columnists could no longer simply presume that the benefits of neoliberal policies were beyond question. At press conferences US government officials, and officials at the World Trade Organization (WTO), World Bank (WB), and International Monetary Fund (IMF) were finally asked by reporters to respond to criticisms of their policies and programs. This is not to say both views have received equal treatment in the mainstream US media since Seattle, nor that the views of those opposing corporate sponsored globalization have been accurately represented. Far from it. But US opponents of neoliberal globalization had crossed a

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significant political watershed. Fifty thousand demonstrators, ten thousand of whom were willing to engage in civil disobedience, had won their fellow US citizens the opportunity to debate what the rest of the world had been debating for years: Was neoliberal globalization good or bad for the earth and most of its inhabitants?

Unfortunately we have won little else in the ensuing six years. While everyone now knows there are two sides to the story, and while opponents of neoliberal globalization have strengthened our intellectual case and convinced many who listen of the validity of our arguments, we have had no appreciable impact on actual policies or on the pace and destructiveness of neoliberal globalization. At most there have been changes in the rhetoric of some neoliberal global managers, and changes in the names but not the substance of some programs. In other words, neoliberal global managers have responded to criticism and increasing popular skepticism about globalization not with policy changes but with a slicker public relations campaign. While there are many other things the movement for global justice must do to become more effective, we should always seek to sharpen our intellectual "case" against neoliberal globalization. That is what I will try to do in my talk here today.

### **The Neoliberal Story Line**

Before criticizing the neoliberal theory of globalization, it is important to appreciate why it is so alluring. It is intellectually attractive because it can be expressed in a simple, elegant way. Of course its real power derives not from its logical or intellectual content, but from the fact that according to neoliberal theory multinational corporations and wealthy investors should not only be permitted, but encouraged to do exactly what they want to do. But since this is a talk about the intellectual merits of a theory, rather than the political power of those who endorse it, I begin by singing a song worthy of the ancient sirens.

#### *Capital Liberalization*

It is inefficient to prevent capital from moving to wherever it is most productive. So if lending to a less developed country (LDC) increases productivity there more than it would in a more developed country (MDC), restrictions on international lending activities necessarily entail efficiency losses. Similarly, if building a plant in an LDC raises the productivity of LDC workers by more than building the plant in an MDC would increase the productivity of MDC workers, then restrictions on foreign direct investment necessarily impose efficiency losses. Therefore, neoliberals conclude, removing restrictions on international financial investment (IFI) and foreign direct investment (FDI) increases global economic efficiency, benefiting borrowers and lenders, investors and host countries alike.

### *Trade Liberalization*

If the US is better at making tools and Mexico is better at making shirts, it is easy to see why there will be an efficiency gain if the US produces all the tools and Mexico produces all the shirts, and each country exports the good it is better at producing and imports the good the other country makes better. But even if the US is better than Mexico at making *both* tools and shirts, not only Mexico but the US as well can be better off if the two countries specialize and trade. Of course it was David Ricardo who discovered this powerful “truth” and explained why it only seems counter intuitive at first. Ever since Ricardo economists have understood that trade is driven by comparative advantage (CA) not absolute advantage. Therefore, if the US is 4 times as good at making tools, but only 2 times as good at making shirts, it is still more efficient to have the US make only tools (which it is 4 times better at), instead of making shirts (which it is only 2 times better at), while Mexico produces only shirts (which it is only 2 times worse at), instead of making tools (which Mexico is 4 times worse at.) In other words, it does not matter if countries have different overall levels of development, or productivity, they have good reason to specialize and trade with one another in any case. As long as the differences in productivity between countries are *uneven*, i.e. greater in one industry than in another, the possibility of mutually beneficial specialization and trade exists. Therefore, neoliberals conclude, removing barriers to the free trade of goods and services among countries will increase global efficiency, and as long as countries are free to walk away from any deals that do not leave them better off, the efficiency gain will be distributed so as to make every country absolutely better off than it would have been without trade.

### *Fiscal and Monetary Discipline*

When global capital markets impose fiscal and monetary discipline on national governments they protect citizens from irresponsible politicians seeking short-run political advantages. Similarly, when the IMF insists on fiscal and monetary discipline in exchange for bail out loans they act in the interests of the citizens who have been betrayed by their elected representatives who run budget deficits and lax monetary policies to the detriment of the long run health of their economies. Therefore, neoliberals conclude, when international credit markets and the IMF make it possible for global investors to veto fiscal and monetary policies chosen by elected governments, they act in the long term interests of the citizens those governments misrepresent.

### *Globalization and the Environment*

Finally, since these neoliberal policies are the best policies to promote economic growth, and since the Kuznets curve tells us that rising GDP per capita is what increases people's demand for environmental amenities, neoliberals conclude that capital liberalization, trade liberalization, and macroeconomic policy discipline are the best policies to protect

the environment in the long run. The fortuitous discovery that neoliberalism is the environment's best friend provides a soothing last verse to the alluring song mainstream economists sing about neoliberal globalization.

### **Neoliberal Caveats**

There are important caveats which the more cautious and intellectually rigorous supporters of neoliberalism do hum in the background. Even though the caveats explaining why there may be losers as well as winners *within* countries are invariably drowned out by the sirens' paean to the virtues of neoliberal globalization, we should lend an ear to the caveats nonetheless.

#### *There Are Losers from Trade in the Short Run*

Honest neoliberals admit that within countries there will be losers as well as winners from trade liberalization in the short run. Since trade liberalization will decrease production in some industries while it increases production in others, those who own or work in firms in importing industries will suffer in the short run. Therefore, steel companies and steel workers were not foolish to oppose trade liberalization in the United States. Since the US no longer enjoyed a comparative advantage in steel production, they were correct to anticipate that production, employment, profits, and wages in the steel industry would fall when trade barriers were lowered. On the other hand, financial service companies and their employees were wise to support trade liberalization in the US. Since the US has a comparative advantage in financial services, they were right to anticipate that when trade barriers were lowered production, employment, profits, and wages in the financial services sector would rise. In other words, mainstream economists acknowledge the common wisdom that those associated with importing industries lose while those associated with exporting industries win from trade liberalization. But they hasten to point out: (1) The theory of comparative advantage guarantees that the winnings outweigh the losings. (2) In theory the losers could be fully compensated still leaving the winners better off. And (3) these are only short run effects.

#### *There Are Losers from Trade in the Long Run*

Honest neoliberals also admit that within countries there will be losers as well as winners from trade liberalization in the long run. However, they begin by pointing out that even in absence of compensation for losers, those who own capital and those who work in importing industries are not necessarily damaged by trade liberalization in the long run. While it is always inconvenient to have to disinvest and reinvest one's capital, or to change jobs, in the long run export industries will expand and hire unemployed factors of production from importing industries in decline. However, this does not mean

there will not be predictable losers as well as winners in the long run. Of course this is the domain of Heckscher-Ohlin (HO) theory that teaches us who the winners and losers within countries are likely to be from trade liberalization. According to HO theory owners of factors of production that are more abundant in a country than they are in other countries will be the winners from trade liberalization in the long run, while owners of factors that are more scarce in a country than they are in other countries will be the losers in the long run. This is because according to HO theory a country will tend to have comparative advantages in the production of products that use factors of production that are relatively abundant in that country. Since trade liberalization will increase the production of the goods in which a country has a comparative advantage, it will also increase demand for relatively abundant factors of production, and therefore increase payments to relatively abundant factors. The opposite holds for relatively scarce factors. Trade liberalization decreases production of goods in which a country does not enjoy a comparative advantage, which tend to be goods that use factors of production that are relatively scarce in that country. This decreases demand for relatively scarce factors, and therefore decreases payments to relatively scarce factors.

When we look to see what factors of production are relatively abundant and relatively scarce in the United States, we find that capital is *relatively* abundant while labour is *relatively* scarce. So in the long run HO theory predicts that trade liberalization will put upward pressure on profits and downward pressure on wages in the US. We also find that college educated labour is *relatively* abundant in the US while less educated labour is *relatively* scarce. So in the long run HO theory predicts that trade liberalization will put upward pressure on the wages of more educated workers and downward pressure on the wages of less educated US workers. In sum, we find that mainstream trade theory validates the view that in the United States workers, and particularly less educated workers, are the long run losers from freer trade, while capitalists and highly educated workers are the long run winners.

#### *There Are Losers from Capital Liberalization*

Honest neoliberals also admit that within countries those who enjoy the benefits of capital liberalization are often not the same as those who bear the costs. For example, Suharto and his cronies benefited greatly from running up Indonesia's international debt in the 1980s and early 1990s, but most of the burden was born by people who lost jobs and income when the East Asian financial crisis hit in 1997 and when the IMF insisted on fiscal and monetary austerity in 1998. Those responsible for running up debt in most LDCs are usually not the ones who bear the burden of repayment.

In general, the more thoughtful who recommend trade and capital liberalization include the following caveat: While *all* countries benefit *as a whole* from trade and capital

liberalization, the distribution of costs and benefits *within* countries may be problematic. One might hope that governments and international financial institutions (IFIs) would focus on the obvious implication of this admission — that redistributive policies are required to correct for inequities caused by neoliberal globalization. But unfortunately champions of neoliberalism have more often drawn a different conclusion — that since there will be losers as well as winners within countries, and since those who are hurt will try to obstruct progress even though globalization is in the general interest, it is of paramount importance not to listen to complaints from the victims of globalization.

### *Environmental Damage May Increase in the Short Run*

Honest neoliberals also admit that as LDCs develop their environments are likely to suffer in the short-run. The famous Kuznets curve is, after all, a “U.” In other words, as GDP per capita grows initially in LDCs the environment may come under greater stress, just as it did in the MDCs during their early development. (The downward part of the “U.”) But as per capita GDP starts to rise from the bottom of the Kuznets curve, consumer demand for environmental “amenities” will increase in LDCs, just as it did in MDCs in the late twentieth century. So while there may be increasing pressure on the environment temporarily, in the long run supporters argue that neoliberal policies are the environment’s best friend because they move LDCs into the upward part of the Kuznets curve more quickly.

In conclusion, the important lessons for supporters is that even after careful consideration of all the caveats: (1) Neoliberal policies should be unfettered so as to maximize the growth of global GDP. (2) Those who oppose globalization represent special interests within countries who are harmed by neoliberal globalization. But since costs to losers are smaller than gains to winners, these special interests should not be heeded. And (3) any corrective measures deemed necessary should be engaged in after the fact, and never obstruct or delay liberalization. Unfortunately, as alluring as the neoliberal story may be, it is fundamentally untrue. Both the simple version and the version with caveats paper over important issues and dynamics that dramatically change the conclusions.

## **What Neoliberals Don't Want You To Know**

The missing story falls into two broad categories. Initially critics focused on the unjust redistribution of income, wealth, and power that neoliberal globalization aggravates. As a result, the part of the critique of neoliberalism that is best known is that neoliberal policies generate more inequities than advocates let on, the inequities are far greater than proponents admit, and there is every reason to believe the inequities will go uncorrected and grow over time. Not only are there winners and losers *within* countries, there are

winners and losers *among* countries. A crucial part of the missing story that mainstream theory hides is that even when there are global efficiency gains from capital or trade liberalization, these gains will be distributed between countries in ways that aggravate global inequalities. Moreover, even if a country benefits as a whole, so the gains to winners outweigh the losses to losers within the country, a majority of the population are losers and only a minority are winners. In other words, early critics of neoliberal globalization argued that the devil is in the caveats, and what neoliberals call caveats are, in truth, the main story line.

The part of the missing story that is less well known is that while neoliberal policies may increase global efficiency in some regards, there is good reason to believe they increase economic inefficiency in even more important ways. In other words, critics have begun to challenge what neoliberals consider their main story line, and argue it is simply wrong. I will begin with this second line of criticism, briefly summarizing empirical evidence others have gathered suggesting that neoliberalism has, in fact, retarded global growth, followed by a careful review of all the theoretical reasons why we should not find this surprising. I begin with the criticism that neoliberal policies retard growth because it is least well known, because it is the major virtue its proponents claim, and because if neoliberalism does not generate positive net efficiency gains there is no reason to consider tolerating policies that even its proponents concede aggravate global inequality.

Even before the Battle for Seattle a few of us had started to look at empirical evidence linking neoliberal international reforms and global growth. To our surprise we discovered that global growth rates were almost twice as high during the Bretton Woods era before neoliberal policies gained sway, than they were after the ascendancy of neoliberalism. In other words, preliminary evidence did not support neoliberal claims that their policies increased global growth rates, it suggested just the opposite. It was as if advocates of neoliberal reforms had been given a “pass” by the mainstream of the economics profession, the mainstream media, and by leaders of conservative and liberal political parties alike, before anyone had bothered to grade their exam!

Most mainstream economists assume neoliberal globalization has produced significant efficiency gains, and begrudgingly admit it has increased global inequality. Evidence of escalating inequality is so overwhelming that nobody dares deny it, and for all who wish to see, it stands out as the most salient characteristic of the global economy during the past quarter century. But it turns out on more careful examination there is no compelling evidence suggesting efficiency gains from neoliberal policies. As a matter of fact, there is strong empirical evidence that neoliberal policies have slowed global growth rates significantly. A report prepared by Angus Maddison for the Organization for Economic

Cooperation and Development (OECD) titled *Monitoring the World Economy 1820-1992* published in 1995 provided an early warning that the popular impression that neoliberal policies had increased the rate of world economic growth was simply wrong. Maddison compared growth rates in the seven major regions of the world from 1950 to 1973 — the Bretton Woods era — to growth rates from 1974 to 1992 — the neoliberal era — and found there had been significant *declines* in the annual average rate of growth of GDP per capita in six of the seven regions, and only a slight increase in one region, Asia. Maddison reported that the average annual rate of growth of world GDP per capita during the neoliberal period was slightly more than *half* what it had been in the Bretton Woods era. The Economic Policy Research Center updated Maddison's work in *Scorecard on Globalization 1980-2000: Twenty Years of Diminished Progress*, and reconfirmed his conclusion that neoliberal policies had continued to be accompanied by a significant *decrease* in the rate of growth of world GDP per capita through the end of the century.

Since the IMF elevated capital liberalization to the status of an economic commandment, it is particularly surprising that numerous empirical studies by IMF economists could find no statistically significant positive relationship between capital liberalization and economic growth rates. Stanley Fischer, who as Assistant Managing Director was often the IMF official who delivered the commandment to LDCs during the 1990s, gave the luncheon address to the American University Conference on Globalization held in the spring of 2000. When asked by my colleague, Professor Robert Blecker, to comment on these studies, Fischer refused to discuss the IMF staff papers even though they were available to the public, but insisted he was confident economic historians would verify the positive contribution of capital liberalization to economic growth thirty years hence. In other words, Stanley Fischer knew in 2000 there was no empirical evidence to support the relentless IMF campaign for capital liberalization, and that it was essentially a faith-based initiative.

To put it simply, as any economist knows isolating the effect of particular policies on economic growth in a world where many other factors affect growth, and those other factors change all the time, is a tricky business at best. But if dismantling the Bretton Woods system while promoting capital and trade liberalization had really produced more efficiency gains than losses, it is hard to imagine how world growth rates would have been cut almost in half! When it was clear that data strongly suggested that neoliberal policies had retarded growth rather than enhanced it, opponents began to search for theoretical reasons why this was so in addition to reasons why neoliberal policies were aggravating global inequality.



## **How Capital Liberalization Retards Growth**

Why IFI and DFI almost always increase global inequality even when they do create an efficiency gain is explained below. But the simplistic neoliberal view that capital liberalization necessarily increases global efficiency and thereby increases world growth rates is biased and terribly misleading.

### *Profitability Is Not the Same as Productivity*

First of all, just because DFI is more profitable than investing in new plant and machinery at home does not mean the plant and machinery are more productive than they would have been at home. DFI might be more profitable because the bargaining power of third world workers is even less than that of their first world counterparts. Or DFI might be more profitable because third world governments are more desperate to woo foreign investors and offer larger tax breaks and lower environmental standards to businesses locating there. Neither of these reasons profits from DFI might be higher than profits from domestic operations imply that the plant, machinery or know-how raises productivity more abroad than it would have at home. When international investment is driven by corporations' search for lower wages, lower taxes, and more lax regulations regarding worker health and safety and the environment, there is no reason to assume that the investment is actually more productive abroad than it would have been at home, and may, in fact, be less so.

### *Not All Loans Increase Productivity*

It is also not necessarily the case that just because foreign borrowers are willing to pay higher rates of interest, loans are more useful or productive abroad than at home. When Zaire's dictator, Mobutu, borrowed hundreds of millions at exorbitant interest rates he used the loans to line the pockets of his family and political allies and to buy weapons to intimidate his subjects. There was no increase in economic productivity in Zaire associated with the loans, and consequently no increased product with which to pay back international creditors after Mobutu departed.

### *Financial Sectors Are Not Crisis Proof*

A more serious problem with international lending is that when production in developing economies is tied more tightly to the international credit system and the credit system breaks down, real economies and their inhabitants suffer huge losses of production, employment, and capital accumulation. Whenever any credit system is extended there is a potential downside for the real economy, as well as a potential upside. When there are no financial crises there may be efficiency gains from liberalizing the international credit system — as mainstream finance theory goes to great

lengths to teach. But when there are financial crises there can also be big efficiency losses in affected “real” economies. Mainstream financial economists seldom point out the potential efficiency losses inherent in extending the credit system. They do not emphasize the losses in production that can occur if there is some sort of financial crisis. They do not point out that the possibility of financial crisis is inherent in *any* credit system. Nor do they explain that the root source of financial crises is *not* irrational human behavior, but very astute *rational* behavior.

One of my favorite applications of game theory is a simple model called “The Bank Run Model” in Robert Gibbons, *Game Theory for Applied Economists* (Princeton University Press, 1992.) The model nicely illustrates that there are *two* equilibria, not one, to the banking “game.” When other depositors do not withdraw, each individual depositor’s best strategy is also not to withdraw. When this occurs all goes well for depositors, the bank, and those the bank lends to. But when other depositors do withdraw, the individually rational strategy is to withdraw as quickly as possible. This is not irrational behavior at all. On the contrary, hesitation and failure to withdraw quickly is individually disastrous. Unfortunately when depositors behave in this way we have a second equilibrium outcome to the banking game, just as much the product of individually rational behavior as the first. The difference is that depositors, the bank, and those the bank lent to all lose.

One of my favorite models in my own book, *The ABCs of Political Economy* (Pluto Press, 2002) is called “Banks in a Simple Corn Model.” This model adds a bank to a very simple model of the “real economy.” By combining a financial sector with a real economy in their simplest forms it is possible to see exactly how the financial sector *can* increase efficiency when it permits borrowers to engage in more productive activity sooner than they would have otherwise been able to if they had had to wait until their own savings were sufficient to finance their productive investment. But it also illustrates how a financial sector *can* cause efficiency losses in the real economy when there is a financial crisis and borrowers can no longer find lenders and must sink back into less productive activities.

If one substitutes “emerging market economy” for “bank” and “international investor” for “depositor” in these models, the models also illustrate the dangers inherent in the liberalized international financial system. I titled my book about neoliberal globalization *Panic Rules!* to highlight this problem. There are two rules of behavior in any credit system: Rule #1 is the rule all participants want all *other* participants to follow: DON’T PANIC! Rule #2 is the rule each participant must be careful to follow herself: PANIC FIRST! In the early 1990s the IMF and World Bank, at the behest of the US Department of the Treasury, worked hard to create a disaster waiting to happen where it became

increasingly rational for international investors to follow rule #2, panic first, with disastrous consequences for all.

### **Creating An Accident Waiting To Happen**

In the early 1990s delegations from the IMF used carrots to ply amenable governments and sticks to beat reluctant governments to eliminate restrictions not only on DFI, but on the inflow and outflow of speculative, short-run liquid capital as well. Below are some of the commitments extracted by the IMF from South Korea in exchange for an IMF loan in the spring of 1998. They are taken from a "Letter of Intent" dated May 2, 1998, addressed to Michel Camdessus, Managing Director of the IMF, and signed by Chol-Hwan Chon, Governor of the Korean Central Bank, and Kyu-Sung Lee, Korean Minister of Finance:

- Appoint outside experts to assist the Privatization Committee to develop a privatization strategy for Korea First Bank and Seoul Bank, and obtain bids for KFB and SB by November 15, 1998.
- Submit legislation to abolish regulations that prohibit foreigners from becoming bank managers by June 30, 1998.
- Conduct a comprehensive review of all remaining restrictions on corporate foreign borrowing, including restrictions on borrowing of 1-3 year maturities, as part of a review of the Foreign Exchange Management Law to be completed by December 31, 1998.
- Submit legislation to abolish restrictions on foreign ownership of land and real estate properties by June 30, 1998.
- Increase the permitted equity ownership by foreigners of Korean telephone service providers from 33 to 49 percent by January 1, 1999.
- Permit equity investment in nonlisted companies and eliminate the aggregate ceiling on foreign investment in Korean equities by December 31, 1998.
- Submit legislation to fully liberalize rules on takeovers of nonstrategic Korean corporations by foreign investors by eliminating the ceiling on the amount of stock foreigners can acquire without approval by a company's Board of Directors by June 30, 1998.

- Permit foreigners to engage in securities dealings, insurance, leasing, and other property related businesses by April 1, 1998.

That the IMF would demand concessions like these is astonishing for many reasons, not the least of which is that the question of foreign ownership had nothing to do with the Korean economic crisis or its resolution. Yet the IMF took full advantage of the Korean crisis to extract concessions not only removing restrictions on foreign investment and ownership, but removing restrictions on the magnitude of short term international borrowing in hard currencies by Korean corporations and banks - despite the fact that excessive borrowing of this kind was the immediate cause of the financial crisis in the first place!

As a result of IMF policies like these applied in one developing country after another, a mushrooming pool of liquid global wealth was suddenly free to move wherever and whenever it wished at the click of a mouse on a computer screen in New York, London, or Tokyo. In 1986 \$0.2 trillion per day traded on foreign exchange markets. By 1998 that figure was \$1.5 trillion, only 2% of which was needed to finance international trade and productive investment, which means that 98% of the \$1.5 trillion traded per day in currency markets by 1998 was for purely speculative reasons. Moreover, financial liberalization and deregulation in the advanced economies meant that much of this liquid global wealth, managed by 30 year old recent MBAs knowing little about the “emerging market” economies they were investing in, was highly leveraged and therefore even more prone to panic and contagion.

The neoliberal global managers created the financial equivalent of the proverbial 900 pound gorilla: Where does the 900 pound gorilla - liquid global wealth - sit? Wherever it wants! And when a derivative tickles, and investors obey Panic Rule #2 – panic first! – currencies, stock markets, banking systems, and, most importantly for the rest of us, formerly productive economies all collapse in their wake. In 1997 the disaster struck in Thailand and spread to Malaysia, Indonesia, and South Korea. Soon after a separate disaster, created by no-holds-barred, neoliberal policies in Russia, spread from Russia to Brazil. Since then Ecuador, Turkey, and most notably Argentina, the IMF poster child of the 1990s which has now suffered the worst economic collapse in the history of Latin America, have all experienced serious financial crises. Similar or worse disasters can still strike anywhere because thanks to the neoliberal global managers there is plenty of financial tinder to catch fire, and most financial fire breaks have been removed.

Neoliberal capital liberalization in the past 20 years has been the most reckless and irresponsible extension of any credit system in world financial history. Nineteenth

century financial crises that twentieth century economic historians used to write about as relics of dangerous, bygone days don't hold a candle to the financial crises of the past decade. The magnitude of liquid global wealth is unprecedented. New financial "products" wielded by highly leveraged global hedge funds abound. Prudent regulations and monitoring have been eliminated. All manner of capital controls governments once used to intervene in timely ways to ward off currency crises have been rooted out. There is no credible international lender of last resort. And serious regional rivalries have prevented timely emergency measures except when US companies are most at risk. The difference in how the Mexico peso crisis was handled in the mid 1990s and the East Asian financial crisis was handled in the late 1990s has not been lost on Asian countries. At the behest of Federal Reserve Chairman Alan Greenspan and Secretary of the Treasury Robert Rubin the IMF orchestrated the Mexican bail out quickly, with few questions asked, and even fewer conditionalities imposed. When Japan offered 100 billion to do the same when the East Asian crisis first hit, Larry Summers, then Assistant Secretary of the Treasury for International Affairs, was dispatched to read the Japanese the riot act, order them to butt out, and threaten that the IMF would wash its hands of the East Asian crisis if Japan dared provide emergency loans to afflicted governments without severe conditionalities. The result of this double standard was that the East Asian crisis — an economic tsunami that Princeton University economics professor and *New York Times* columnist Paul Krugman described as "the worst falling from economic grace since the Great Depression" — was far worse than it need have been.

If mainstream academic financial economists bothered to step back and look seriously at the world credit system as it presently functions, they would realize that it is their worst nightmare come true. As a matter of fact, a few economic luminaries have come to this realization. When evidence of the disastrous effects of capital liberalization became overwhelming, Joseph Stiglitz, Jeffery Sachs, and Paul Krugman — indisputably among the "best and the brightest" mainstream economists of the 1980s and early 1990s — all broke with neoliberal orthodoxy and denounced these dangerous policies in no uncertain terms. But you don't have to listen to me, or to any of these former mainstream stars who have been pushed to the left by the arrogant and destructive reign of the neoliberal establishment. You can listen to Paul Volcker, whose conservative credentials in the financial community are unimpeachable. Paul Volcker is best known as the conservative, inflation fighting Chairman of the Board of Governors of the Federal Reserve System from 1979 through 1987. Prior to that he served Presidents Kennedy, Johnson, and Nixon in a variety of capacities. After retiring from the Fed he became Chairman of James D. Wolfenson & Co. Inc. and the Henry Kaufman Visiting Professor at New York University's Stern School of Business. Paul Volcker had this to say in his luncheon address to the Overseas Development Council Conference on "Making Globalization Work" on March 18, 1999:

*Everybody talks about globalism these days to the point we are all sick of the term. But what has been too little emphasized is that the process has lots of problems. Here we are, about a decade after the downfall of the old Soviet Union, trumpeting the striking ideological triumph of democratic capitalism and open markets. But looking around the world right now, things are not so benign.*

*My position is that the dramatic succession of international financial crises is a reflection of deep-seated systemic problems. I do not think the pervasiveness of these crises can be traced primarily to particular human or institutional failings in the emerging world. Of course, there is no doubt such failings exist. But beyond those particulars, there are destabilizing forces at work, forces inherent in the organization (or lack of organization) of the international financial system in a world of free capital and money markets.*

Since the neoliberal view is that crony capitalism, corruption, flawed accounting practices, unsound banking systems, lack of transparency, and irresponsible economic policies by governments in the affected countries are the causes of their crises, it is surprising and refreshing to hear a conservative, emeritus professor of financial regulation admit that the official explanation is total hogwash. Volker continues:

*Ponder a bit what went wrong in the emerging market countries. How is it, with their weak banking systems, the lack of transparency and their lack of accounting standards the emerging countries of Southeast Asia, for decades, managed really extraordinary rates of growth 6, 7 or even 8 percent a year? Only in the late 1990's have they collapsed in one big pile together. What is different now than before?*

*First of all, international markets are much larger and more fluid than ever before. More of the participants have a short-term, transaction orientation, and the new technology means they can act quickly to move large amounts of funds. What has been less recognized and commented upon is how small the financial markets are in most of the emerging economies, particularly small relative to the exponential growth of the international financial markets. Those small and weak financial markets are a reflection of the small and undiversified nature of most of their economies. My favorite example has been Argentina where I happened to visit at the time of the Mexican crisis and its so-called Tequila effect. I'm supposed to have some familiarity with these things, but I was nonetheless startled to learn that the aggregate amount of deposits in the Argentine banking system in 1994 was some \$45 billion. At that time, that was about equivalent to the size of the second largest bank in Pittsburgh Pennsylvania. The speed with which those small open economies have opened their financial markets is really amazing. It mainly is a phenomenon of the 1990's. What gives pause is the fact that here, less than a decade later, they are in mass distress.*

This is Paul Volcker, ex Fed Chairman, not Paul Sweezy, the late Marxist editor of *Monthly Review Magazine*, dismissing the standard explanations for the economic crisis which blame the victims, and arguing instead that the crisis was caused by nothing more than the predictable effects of unleashing unbridled international finance on vulnerable less developed economies — whether their governments wanted it or not. Volker concludes:

*You, I am sure, are familiar with the general pattern: their economic success and enormous potential led to large capital inflows. The capital inflows in turn put a rosy glow on their economic cheeks; interest rates stayed relatively low; their currencies were strong; investment was stimulated and sooner or later a real estate boom and excess capacity developed. Then something unexpected comes along, a presidential candidate gets assassinated as in Mexico; a currency is deemed overvalued, as in Thailand; capital gets frightened because of a neighbor's difficulty, as in Indonesia. Then money flows out faster than it came in. The exchange rate goes through the floor, interest rates skyrocket, and a financial crisis becomes an economic debacle.*

How delightfully simple the true explanation for the cause of the East Asian financial crisis turns out to be! Unfortunately, Volker might just as well have been describing the Argentine crisis that hit with a vengeance two years after this speech.

## **How Trade Liberalization Can Retard Growth**

It is pointless to deny that if opportunity costs of producing goods are different in different countries there are potential efficiency gains from specialization and trade. The theory of comparative advantage is logically sound when it teaches that global efficiency is increased when countries specialize in making the goods they are relatively better at producing, and import the goods some other country is relatively better at producing. But this does not mean specialization and trade always improve global efficiency. For a number of reasons it often does just the opposite.

### *Inaccurate Prices Can Misidentify Comparative Advantages*

If commercial prices do not accurately reflect the true social opportunity costs of traded goods, free trade can produce a counterproductive pattern of specialization, yielding global efficiency losses not gains. If commercial prices inside a country fail to take account of significant external effects they may misidentify where the country's true comparative advantage lies. And if international specialization and trade are based on *false* comparative advantages it can lead to international divisions of labour that are less productive than the less specialized patterns of global production they replace.

For example, we know the social costs of modern agricultural production in the US are

greater than the private costs because environmentally destructive effects such as soil erosion, pesticide run-off, and depletion of ground water aquifers go uncounted or are undervalued. This translates into commercial prices for corn that *underestimate* the true social cost of producing corn in the US. On the other hand, when corn is grown in Mexico farmers live in traditional Mexican villages that are relatively disease and crime free and centuries old social safety nets exist when family members fall on hard times. Whereas producing shoes, for example, in Mexico requires a Mexican to live in an urban slum or maquiladora zone where disease and crime are higher and safety nets are absent. The positive external effects of rural village life when corn is produced in Mexico are *undercounted* in the commercial price of Mexican corn. If the external effects are large enough, relative commercial prices in the two countries can *misidentify* which country truly has a comparative advantage in corn and which country truly has a comparative advantage in shoes. While the ratio of the commercial price of corn to the commercial price of shoes make it *appear* that the US is relatively more productive in corn production and Mexico relatively more productive in shoe production, it may be that the comparative advantage of the US is *really* in shoe production and Mexico's comparative advantage is *actually* in corn production. The problem is that even if external effects are significant enough so that taking them into account means it is more efficient to continue producing corn in Mexico and shoes in the US, free trade will lead to counterproductive specialization in which the US expands environmentally damaging corn production, importing more shoes from Mexico, while Mexico moves its population from traditional rural villages to urban slums and maquiladoras to increase shoe production, importing more corn from the US. Efficiency losses like this can happen when treaties like NAFTA increase trade based on differences in relative *commercial prices* rather than on true, relative *social costs* — which can be substantially different.

### *Unstable International Markets Cause Macro Inefficiencies*

Even if international prices for traditional exports from underdeveloped economies did not decline over the long run compared to the prices they pay for imports, if prices for LDC exports are highly volatile this can damage their economies leading to global efficiency losses.

In the first half of the twentieth century there were years when the international price of sugar was ten times higher than in other years. In years when Cuba exported sugar at 20 to 30 cents per pound the Cuban economy ran on all cylinders, but in years when sugar prices fell to 2 to 3 cents per pound the Cuban economy crashed. The international price of tin experienced similar fluctuations during the same time period, periodically wreaking havoc with the Bolivian economy. One problem is that once the export sector reaches full capacity levels of output there is no way to take further advantage of price spikes. But unfortunately, when the bottom falls out of a traditional export market there



is no lower limit on how many people can be thrown out of work and how many businesses can go bankrupt. So even if large drops in export prices in bad years were canceled entirely by equally large increases in good years, LDC economies cannot benefit from price spikes as much as they get hurt when prices crash in their traditional export markets. Another problem is that economic development requires a degree of stability. If every decade a crash in the price of sugar or tin means local businesses selling to the growing domestic market go bankrupt as well, it is difficult to develop new sectors of the economy. In short, greater reliance on trade can lead to efficiency losses when international prices prove very unstable.

### *Adjustment Costs Can Be Significant*

The adjustment costs of moving people and resources out of one industry and into another can be considerable. If adjustment costs are large they can cancel a significant portion of the efficiency gain from a new pattern of international specialization — irrespective of who pays for them. If people must be retrained, if equipment is scrapped before it wears out, if new industries are located in different regions from old ones so people must move to new locations requiring new schools, parks, water and sewage systems, leaving perfectly useable social infrastructure idle in “rust belt” regions they vacate, all this duplication and waste should be subtracted from any efficiency gains from further specialization and trade. Since most of the adjustment costs are not paid for by the businesses who make the decisions, the market fails to sufficiently account for adjustment costs. Consequently, when productivity gains from some new international division of labour are meager and adjustment costs large, we can easily get efficiency losses, not gains from trade.

### *Static Efficiency Can Prevent Dynamic Efficiency*

Finally, the theory of comparative advantage is usually interpreted as implying that a country should specialize even more in its traditional export products, since those would presumably be the industries in which the country enjoys a comparative advantage. But underdeveloped economies are less developed precisely because they have lower levels of productivity than other economies enjoy. If less developed economies further specialize in the sectors they have always specialized in, it may well be *less* likely they will find ways to increase their productivity. In other words, increasing *static* efficiency by specializing even more in today's comparative advantages may prevent changes that would increase productivity a great deal more, and therefore be at the expense of *dynamic* efficiency.

The hallmark of the Japanese and South Korean economic miracles, and the considerable successes of the other Asian “tigers” who followed their lead, was that they did *not* accept their comparative advantages at any point in time as a *fait accompli*.

Instead they aggressively pursued plans to *create* new comparative advantages in industries where it would be easier to achieve larger productivity increases. Japan moved from exporting textiles, toys, and bicycles after World War II, to exporting steel and automobiles in the 1960s and early 1970s, to exporting electronic equipment and computer products by the late 1970s and early 1980s. This was accomplished through an elaborate system of differential tax rates and terms of credit for businesses in different industries at different times, planned by the Ministry of International Trade and Industry (MITI) and coordinated with the Bank of Japan and the taxing authorities. The whole point of the exercise was to create new comparative advantages in high productivity industries rather than continue to specialize in industries where productivity growth was slow. Neither Japan, South Korea, nor any of the successful Asian tigers allowed relative commercial prices in the free market to pick their comparative advantages and determine their pattern of industrialization and trade for them. Had they done so it is unlikely they would have enjoyed their economic miracles.

### **How IMF Conditionality Agreements Retard Growth**

In exchange for a bail out loan that merely allows the country to pay off international loans coming due that it would otherwise have to default on, IMF “conditionality agreements” invariably demand fiscal and monetary austerity. Reducing government spending and increasing taxes both decrease aggregate demand, and therefore decrease employment and production. Reducing the money supply raises interest rates, which reduces domestic investment and further decreases aggregate demand, employment, and production. This is why IMF “structural adjustment” and “conditionality” programs elicit strong opposition from citizens of countries whose economies are already in recession and producing far below their meager potentials —often resulting in anti-IMF riots.

But it would be wrong to assume that IMF economists are ignorant of standard macro economic theory, or that the IMF is gratuitously sadistic. These IMF policies are designed to increase the probability that the country will be able to repay its international creditors, and makes perfect sense once one realizes this is their purpose. If the government is in danger of defaulting on its sovereign international debt, forcing it to turn budget deficits into surpluses provides funds for repaying its international creditors. If the private sector is in danger of default, anything that reduces imports and increases exports, or increases the inflow of new international investment will provide foreign exchange needed for debt repayment. Deflationary fiscal and monetary policy reduce aggregate demand and therefore inflation, which tends to increase exports and decrease imports. By reducing aggregate demand deflationary fiscal and monetary policy also reduces output, and therefore income, which further reduces imports. Tight monetary policy raises domestic interest rates which reduces the outflow of domestic

financial investment and increases the inflow of new foreign financial investment, providing more foreign exchange to pay off the international creditors whose loans are coming due. Finally, since all in the country who owe foreign creditors receive their income in local currency, anything that keeps the local currency from depreciating further will allow debtors to buy more dollars with their local currency, which is what they need to pay their international creditors.

IMF austerity programs are well designed to turn stricken economies into more effective debt repayment machines as quickly as possible. There is little if any disagreement among economists about what the short run effects of fiscal and monetary austerity will be. Instead, we have a simple conflict of priorities: If the interests of international creditors are given priority, the IMF programs make perfectly good sense. They are only counterproductive if one cares about employment, output, capital accumulation, and prospects for economic development in economies where the poorest four billion people in the world live and suffer.

### **Neoliberalism Aggravates Inequality**

Challenging the myth that neoliberal policies promote growth is important because the myth is wide spread — particularly among mainstream economists who seldom think beyond the simplistic story line I outlined at the beginning of my talk — and also because this is neoliberalism's only claim to fame. But it is even more important to elaborate on all the ways in which neoliberalism aggravates inequalities between and within countries. These were not only the criticisms first voiced by opponents of neoliberal globalization, they are, in truth, neoliberalism's main story line.

Two of my colleagues at American University, Walter Park and David Brat, provided a warning about rising inequality between countries in the early neoliberal years. They found that in a sample of 91 countries for which continuous data on gross domestic product per capita existed the value of the Gini coefficient rose steadily from .442 in 1960 to .499 in 1988 — a 13% increase in the economic inequality between countries in less than 20 years. The United Nations *Human Development Report 2000* reported that between 1975 and 1990 GDP per capita in countries with a high human development index grew at a 2.1% average annual rate, while GDP per capita in countries with a low human development index *fell* at a 1.0% average annual rate. The report also revealed that between 1990 and 1998 the average annual rate of growth of GDP per capita was more than twice as high in countries with a high human development index (1.7%) than in countries with a low human development index (0.8%.) In short, the gap between rich and poor countries has increased dramatically during the neoliberal era and continues to do so. Moreover, inequality of income and wealth has increased within countries as well.

In a major article, “Cross-National Comparisons of Earnings and Income Inequality,” published in the *Journal of Economic Literature* in June 1997, Gottschalk and Smeeding concluded: “Not only did the US experience large increases in earnings and market income inequality during the 1980s and early 1990s, most other OECD countries experienced at least modest increases in inequality as well.” The evidence is so overwhelming that none question that inequality between and within countries has grown over the past twenty years. While supporters try to down play the connection, neoliberal policies are one of the major culprits.

## **How Capital Liberalization Aggravates Inequality**

### *Investors Capture the Lion's Share of Efficiency Gains*

Even when IFI and DFI do produce global efficiency gains they usually aggravate global inequalities between countries. Global efficiency rises when international loans from northern economies raise productivity more in southern economies than they would have raised productivity domestically. But when capital is scarce globally, as it has always been and will continue to be for the foreseeable future, competition among southern borrowers drives interest rates on international loans up to the point where lenders usually capture the greater part of the efficiency gain. Similarly, global efficiency rises when DFI by northern multinational companies raises productivity more in southern economies than the investment would have raised productivity domestically. But since capital is scarce globally, competition among southern countries for DFI drives down wage rates MNCs must pay, and increases profit rates of MNCs up to the point where the MNCs capture the greater part of the efficiency gain. So even when IFI and DFI work smoothly and efficiently, they usually increase income inequality between countries.

### *The Great Global Asset Swindle*

Beside causing massive global efficiency losses and unforgivable human suffering for hundreds of millions of third world residents, there is something else mainstream economists won't tell you about the effects of capital liberalization when they lead to financial crises and IMF austerity programs as a “condition” for granting afflicted countries a bailout loan. What I called the “Great Global Asset Swindle” when writing about it in *Z Magazine* in the aftermath of the Asian financial crisis works like this: International investors lose confidence in a third world economy — dumping its currency, bonds and stocks. At the insistence of the IMF, the central bank in the third world country tightens the money supply to boost domestic interest rates to prevent further capital outflows in an unsuccessful attempt to protect the currency. Even healthy domestic companies can no longer obtain or afford loans so they join the ranks of

bankrupted domestic businesses available for purchase. As a precondition for receiving the IMF bailout the government abolishes remaining restrictions on foreign ownership of corporations, banks, and land. With a depreciated local currency, and a long list of bankrupt local businesses, the economy is ready for the acquisition experts from Western multinational corporations and banks who come to the fire sale with a thick wad of almighty dollars in their pockets.

But again, you don't have to take my word for it. You don't have to go back and read the reports filed by Nicholas Kristof who covered Asian economic affairs for the *New York Times* in 1998 and 1999 where he chronicled foreign asset acquisition in Asia in all its gory details. You don't have to listen to Chalmers Johnson, reknowned expert on Asian economies, who argues there was a premeditated strategy to cripple and take over Asian economies that were threatening US economic supremacy. Again, all you have to do is listen to Paul Volker from the conservative establishment speaking in 1999:

*What is happening in the banking sector is striking. Let me return to Argentina.... Today there is only one privately owned bank of any size left in Argentina that is not owned or substantially controlled by a large foreign bank. We see the same phenomenon at work in Mexico: four out of the five largest Mexican banks are owned by, or have substantial ownership interests, by foreign banks. Mexico is a country that only a few years ago, you will recall, took the position in the NAFTA negotiations that the one thing we want to preserve is Mexican ownership of Mexican banks. That is an essential element of our sovereignty, we must not give it up. Two of the largest banks in Korea, which has had a nationally insulated banking system heretofore, are now in the process of being bought by foreigners. Thailand's financial system is being penetrated by foreign ownership. Surprisingly enough even Japan, not exactly a small emerging economy, in the midst of all this distress is apparently willing to accept some foreign ownership of banks and certainly of other financial institutions.*

### *The Race to the Bottom Effect*

The race to the bottom effect on labour standards, working conditions, and wages may be unimportant to mainstream economic theorists, but it is real, and works with a vengeance. Throughout the history of capitalism, since people have ties to places while money does not, it has usually been easier for capital than labour to pick up and move when it can't get what it wants from its partner in production. Capital liberalization has greatly increased this power imbalance, easing the way for companies not only to move from one city or state to another within a country, but to relocate to any country in the globe. Moreover, MNCs are playing the joke over and over again. Whereas workers in OECD countries were victimized when MNCs relocated plants to countries like Mexico and Indonesia in the 1980s, Mexico and Indonesia have become the victims of the race

to the bottom effect now that mainland China has redefined where the bottom lies, and MNCs feel safe behind “Communist” lines as long as the “Communists” agree to play by WTO rules. Any who continue to harbor doubts about the race to the bottom effect should read about the cozy relationship between Walmart, arguably the most vicious cost cutting company in the world, and the Chinese government, certainly one of the least democratic and most repressive governments in the world, and how they have conspired to achieve their goals at the expense of both American and Chinese workers.

## How Trade Liberalization Aggravates Inequality

### *Capital Rich Countries Capture the Lion's Share of Efficiency Gains from Trade*

The theory of comparative advantage has much to say about efficiency gains from trade, and about the feasible range of terms of trade if we assume countries are free to operate in their own self interests. But CA theory is conveniently silent on the subject of where within the feasible range the actual terms of trade are likely to end up, and therefore which countries will reap the lion's share of the benefits from trade between them. Nor does the other pillar of mainstream trade theory help us here. While Heckscher-Ohlin theory may tell us who will benefit and who will lose from trade *within* countries, HO theory is also silent about the distribution of benefits *between* countries.

When there are efficiency gains to be had from specialization and trade there are always terms of trade that would distribute more of the efficiency gains to poorer countries and thereby reduce global inequality, while still benefiting wealthier countries as well. But unfortunately, the international terms of trade generated by market forces *usually* distribute the lion's share of any efficiency gains to countries that were better off in the first place, and thereby aggravate global inequality. The most important reason they do this is that as long as productive capital is scarce globally, that is, as long as having more machines and equipment would allow someone, someplace in the global economy to work more productively, there is every reason to believe the terms of trade will distribute more of the efficiency gains from trade to capital-rich countries. Strangely, mainstream trade theory contains no models that shed light on this important issue, so one has to turn to models developed by political economists for enlightenment instead. John Roemer developed a model that demonstrates this result in “Unequal Exchange, Labor Migration, and International Capital Flows” published in *Marxism, Central Planning and the Soviet Economy*, edited by P. Desai (MIT press, 1983). Appendix B in my book *Panic Rules!* (South End Press, 1999) contains a simpler model that demonstrates the same point. What these models have in common is they allow us to go beyond CA theory, which merely establishes the range of feasible terms of trade, to determine where in the feasible range the actual terms of trade will fall if terms are determined by

competitive forces in international markets. What the models demonstrate is that as long as capital is scarce globally, *even when international markets for goods are assumed to be competitive*, free market terms of trade give more of the efficiency gain from trade to capital rich countries than to capital poor countries, thereby aggravating global inequality.

The intuition is straightforward: When northern countries specialize in producing capital intensive goods in which they have a comparative advantage, and southern economies specialize in labour intensive goods which is their comparative advantage, there should be an efficiency gain. But as long as capital is scarce compared to labour globally, the southern economies effectively compete among themselves for capital intensive goods, turning the terms of trade against themselves and in favor of the northern countries. But while the intuition is straightforward, the implications are profound: Even if international markets are competitive, free market terms of trade will aggravate global inequality in the normal course of events.

### *Free Trade Aggravates Global Inequalities Within Countries*

To understand why trade has aggravated inequalities inside MDCs we need go no farther than Heckscher-Ohlin theory which teaches, as we saw, that returns to relatively abundant factors in MDCs like capital and more educated labour will rise in MDCs, while returns to relatively scarce factors like labour and less educated labour in particular will fall as a result of trade liberalization. Of course this is exactly what has occurred in the US, making the AFL-CIO a consistent critic of trade liberalization. In a study published by the Institute for International Economics in 1997, William Cline estimated that 39% of the increase in wage inequality in the US over the previous twenty years was due to increased trade.

However, Heckscher-Ohlin theory cannot explain rising inequality inside LDCs. As a matter of fact, HO theory predicts just the reverse. Increased trade should increase returns to labour, and less educated labour in particular, since those are relatively abundant factors in most LDCs, while reducing the returns to capital and more educated labour since those are relatively scarce factors in most LDCs. In other words, HO theory predicts that increased trade should aggravate inequalities within advanced economies, but should decrease inequalities within third world economies.

The problem is not with Heckscher and Ohlin's logic — which like the logic of comparative advantage theory is impeccable. The problem is that all theories implicitly assume no changes in other dynamics the theory does not address. When the real world does not cooperate with the theorist and remain *ceteris paribus*, but inconveniently allows other dynamics to proceed, we often find the predictions of some particular theory are not born out. That is not necessarily because the theory was flawed. It can simply be because the effects the theory predicts are over-whelmed by the effects of

some other dynamic the theory never pretended to take into account.

In this case I believe the dynamics in LDCs unaccounted for in HO theory are powerful dynamics affecting third world agriculture. First, the so-called “Green Revolution” made much of the rural labour force redundant in third world agriculture. Then neoliberal globalization accelerated the replacement of small scale, peasant farming for domestic production by large scale, export-oriented agriculture dominated by large landholders, and increasingly by multinational agribusiness. To be sure third world peasants make a miserable living on the land by first world standards. But they make a better living than their cousins crowded around every major city in the third world from Lima to Sao Paulo to Lagos to Cape Town to Bombay to Bangkok to Manila. While cash incomes are meager in third world agriculture, they are better than joblessness and beggary in third world cities. Three decades ago large amounts of land in the third world had a sufficiently low value to permit billions of peasant households to live on it, producing mostly for their own consumption, even though their productivity was quite low. The green revolution, globalization, and export oriented agriculture have raised the value of that land. Peasant squatters are no longer tolerated. Peasant renters are thrown off by owners who want to use the land for more valuable export crops. Even peasants who own their family plots fall easy prey to local economic and political elites who now see a far more valuable use for the land and have become more aggressive land-grabbers through a variety of legal and extralegal means. And finally, as third world governments succumb to pressure from the IMF, World Bank, and WTO to relax restrictions on foreign ownership of land, local land sharks are joined by multinational agribusiness killer whales, adding to the human exodus. The combined effect of these forces has driven literally billions of peasants out of rural areas into teeming, third world mega cities in a very short period of time. This means there are many more ex-peasants applying for new, labour intensive manufacturing jobs produced by trade liberalization and international investment in third world countries than there are new jobs.

Even a casual glance at the scale of the human exodus from traditional agriculture explains why unemployment is increasing, not decreasing, and wage rates are falling, not rising, in underdeveloped economies. Political economists like David Barkin of the Autonomous University of Mexico do not claim that trade liberalization has not created some new jobs in Mexican manufacturing — as Heckscher-Ohlin theory predicts. Instead Barkin and other Mexican economists point out that disastrous changes in Mexican agriculture, induced in part by terms of the NAFTA agreement, negate any small beneficial HO effects on employment and wages that might have been expected, and explain the large increases in *un*employment and the dramatic *fall* in real wages that have occurred since the Mexican government signed the NAFTA treaty over a decade ago.

### **How Neoliberal Globalization Hastens Environmental Destruction**

It would take not only a separate talk, but a two course sequence to do justice to all the ways neoliberal economic policies are hastening environmental destruction. But if by



omission I left the impression that the Kuznets curve could save the planet, I would be guilty of criminal negligence. So let me close my critique of neoliberal globalization with two pieces of advice: (1) Forget the Kuznets curve, and (2) focus on *material throughput*. As neoliberal policies hasten resource extraction and waste generation, and as neoliberal policies lead LDCs to imitate MDC economic lifestyles, growth of what Ecological Economists teach us is the crucial variable - material throughput — will destroy the biosphere long before the 5 billion people living in LDCs ever reach the upward part of the Kuznets curve - assuming there really is an upward part. While technical progress and education may be able to increase the value of what we produce per unit of human effort without limit, increases in material throughput are already causing great damage to the environment, and cannot increase beyond a certain point. Unfortunately neoliberal policies raise the rate of material throughput more than they increase the quality of our economic efforts. But that will have to be a story for another day.